NEWS RELEASE

CALIFORNIA STATE TREASURER PHILIP ANGELIDES

FOR IMMEDIATE RELEASE
September 10, 2001

TREASURER RECOMMENDS EDUCATION BOND APPROVAL

SACRAMENTO – California State Treasurer Philip Angelides today recommended to a legislative conference committee the approval of an education bond measure in the magnitude of $20 billion for the 2002 ballot. Angelides advised legislators that the State could authorize $24.6 billion in new general obligation and lease purchase revenue bonds for all capital outlay needs through the 2006 elections, with education bonds comprising the lion's share. He recommended approval of an education bond measure in an amount sufficient to carry the State to the 2006 election to better enable local school districts to plan their capital programs and to provide the capital markets with the framework to properly plan for the State's debt issuance.

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September 10, 2001

The Honorable Deirdre Alpert
California State Senate
State Capitol, Room 5050
Sacramento, California 95814

The Honorable Virginia Strom-Martin
California State Assembly
State Capitol, Room 3146
Sacramento, California 95814

Re: Conference Committee on 2002 Education Bonds

Dear Senator Alpert and Assemblymember Strom-Martin:

I am writing this letter to apprise the conference committee of this office's view with respect to the amount of general obligation and lease-purchase revenue bonds which may be issued by the State of California to meet the substantial and documented need for the construction and renovation of school facilities.

The State of California can issue approximately $24.6 billion in new general obligation and lease-purchase revenue bonds for all purposes over the five years commencing with fiscal year 2002-2003, in addition to the approximately $13.6 billion in already authorized but unissued bonds, while still maintaining modest debt service to General Fund ratios below the levels of the mid 1990's. The Legislature may wish to consider additional issuance in the context of other budget priorities.

I would recommend that the committee utilize this $24.6 billion figure as the basis for determining the amount of bond issuance that can be approved prior to the 2006 election, with education bonds – and particularly those for K-12 facilities – comprising the lion's share (for example, $20 billion) of bonds authorized, given identified school facility needs. I would further recommend that the committee approve an education bond measure in an amount sufficient to carry the State to the 2006 election to better enable local school districts to plan their capital programs and to provide the capital markets with the framework to properly plan for the State's debt issuance.

I believe that it is critical that California make this substantial new investment in educational facilities to sustain the strength of our economy and social fabric in the years ahead. The passage of an education bond measure with an adequate planning horizon represents a strategic and needed investment in our future.

The recommendation with respect to the amount of bonds which can be issued is based principally on two factors. First of all, this office believes that, from a market perspective, the State can issue $7 billion in general obligation and lease-purchase bonds per fiscal year. While this figure exceeds historic debt issuance amounts which have ranged from approximately $1.9 billion to $4.6 billion annually over the past five years, debt issuance at the proposed level can be accomplished while maintaining the State's credit rating and achieving favorable interest rates. Recent legislation allowing the State to sell variable rate general obligation bonds, in addition to fixed rate debt, will increase the State's market capacity.

Secondly, the proposed amount of debt issuance would still allow the State to maintain modest levels of debt service as a percentage of General Fund revenues. This ratio is important not only with respect to credit ratings but also with respect to overall budget priorities. With debt issuance at the proposed level, the ratio of debt service to General Fund revenues rises from the current 4.24 % to 5.15 % at its peak in fiscal year 2007-2008 – below the levels of the mid 1990's. Additionally, if the State moves forward to issue bonds with equal annual debt service as is the practice in the majority of states (versus the current practice of equal annual principal payments, which front loads costs), then the proposed debt issuance can be accomplished with the debt service to General Fund ratio peaking at 4.60 % in fiscal year 2007-2008.

To assist the committee with its deliberations, attached you will find exhibits one through six which contain additional information on this matter. Please feel free to call Duncan McFetridge, my Legislative Director, or me at (916) 653-2995 if you would like to discuss this matter.

Sincerely,

Philip Angelides
State Treasurer

Attachments

cc: The Honorable Governor Gray Davis
The Honorable John Burton
The Honorable Robert Hertzberg
The Honorable Wes Chesbro
The Honorable Charles Poochigian
The Honorable Jackie Goldberg
The Honorable Bill Leonard
Tim Gage, Director of Finance